

Statement of
The Honorable Jovita Carranza
Acting Administrator
US Small Business Administration
House Committee on Small Business
Hearing on GAO Examination of SBA Contracting Programs
June 17, 2008

Good morning; I want to thank the Committee for the opportunity to testify today. While I am proud of the reforms and improvements I have made in my time at SBA, more work remains.

As the other panelists have described, the administration of our HUBZone program leaves considerable room for improvement. In fact, in September 2007, I testified to you about how we were concerned about certain flaws that needed immediate attention. The more we worked to remedy these problems and inefficiencies, the more problems we uncovered.

We welcome the work of the GAO and its investigative team, and as our formal response to their audit makes clear, we agree with their assessment. In fact, GAO's conclusions only confirm much of what we had already uncovered. Now we are working diligently so that this program will better accomplish the goals for which it was established, and I'd like to describe the specific actions we are taking.

First, GAO recommended that we take immediate steps to correct and update the map that is used to identify HUBZone areas. Further, they recommended that we implement procedures to ensure that the map is updated on a more frequent basis with the most recently available data.

The issue of the HUBZone map was, in fact, the problem that uncovered how seriously the program was being mismanaged. In response to a congressional inquiry early this year about whether a specific county qualified as a HUBZone, the HUBZone program determined that it was qualified. Then, after further review several days later, SBA found that it was—in fact—not qualified. When senior managers attempted to determine how such a mistake could have occurred, we learned that the initial determination had been done manually, which led to the question of “why?” This pointed to the true state of the mapping contract and the fact that the map hadn't been updated for more than 18 months, which in turn set off a cascading series of revelations.

In the course of getting to the bottom of these issues—a process that accelerated as time went on—the nature and extent of the program’s problems became increasingly clear. It also became increasingly clear that the program needed new leadership. We have brought on new program management, who are fully committed to reform.

In response to GAO’s call to rectify the map and insure that it remains accurate and up-to-date, on July 3rd a new contract was executed. This contract provides strict timetables and establishes procedures to ensure that, going forward, the map remains current. As described in our formal response to the GAO, the contract also stipulates that the new map shall be available by August 29th.

In its second recommendation, GAO suggested the development and implementation of guidance to more consistently obtain supporting documentation during the application process. Also, they recommended more frequent site visits to ensure that firms applying for certification are eligible

In response, SBA has drafted a new “Application Processing Manual,” the first draft of which was completed July 2nd. The procedures established will provide concrete guides about required supporting documents—what documents are required and how these requests should be handled. Furthermore, the procedures include explicit instructions regarding on-site visits. These procedures will emphasize the need for both increased visits as well as a thorough examination. Presently, this draft is being reviewed and finalized by the HUBZone program staff and the other SBA departments that will be charged with implementing it. We believe that by more effectively marshalling the resources of our district offices we can quickly accomplish this objective, and HUBZone is working with our field operations to ensure that the procedures are clear. The drafting and review process for this manual will be complete by September.

The third GAO recommendation was to establish a timeframe for eliminating the backlog of recertifications and take the necessary steps to ensure that recertifications are completed in a more timely manner.

In response, SBA has hired contract employees to assist in clearing this backlog. Our goal is to clear the entire backlog by the end of fiscal year 2008. As of July 11th, 82 percent of this goal—4,324 recertifications—has been met, and we are on track to complete the remaining 973 backlogged recertifications by the deadline.

The new leadership team has been charged with implementing reforms so that, once the existing backlog is cleared, new recertifications are processed in a timely manner. I can assure the Committee that SBA’s senior staff will oversee this task.

The fourth GAO recommendation was that HUBZone formalize and adhere to a specific timeframe for processing proposed decertifications.

In response, SBA is in the process of updating the applicable SOP and adding explicit timelines. This process will be complete by the end of August.

The fifth and final recommendation was to develop measures and plans to assess the overall effectiveness of the HUBZone program. This recommendation largely mirrors a similar conclusion reached by SBA's Office of Advocacy that we need better ways to assess the economic and development impact of the HUBZone program.

In response, SBA is developing an assessment methodology that will measure the economic benefits that result from the HUBZone program. This work is being done by a trained economist and the analysis staff of our Office of Policy and Strategic Planning. Once completed, this methodology will be used by the HUBZone program to issue regular, public reports accompanied by the underlying data. It is important to note that in developing this new assessment SBA will rely on data that is already available to SBA, the HUBZone program, or publicly available through other Executive agencies. Reducing the burden of government is an important goal, and the small business community and their local and state governments will not be required to submit any new information.

The development of this methodology is well underway, and the final product is expected by August. To ensure the participation of all stakeholders, SBA will publish this methodology and then accept public comment for four weeks. I encourage the Committee and all interested parties to examine the work and make suggestions about how we can better assess HUBZone's impact. After the evaluating any received comments, SBA will publish a final methodology detailing the measures and procedures that will be used.

In response to the findings of the GAO's forensic investigation, which we learned about last week, I have taken immediate steps to require site visits for those HUBZone firms that have received HUBZone contracts. Additionally, we will be instituting suspension and debarment proceedings against firms that have intentionally misrepresented their status in CCR. For example, now that we have the specific names and information on the ten firms that GAO has discovered, we will begin the process to suspend and debar them. SBA has already prosecuted firms for false certification, and we take very seriously the responsibility to ensure that the federal government's contracting partners are trustworthy. As GAO has noted, deterrence is more effective than detection, but deterrence only works when participants know there are serious consequences for malfeasance.

As I acknowledged earlier, and the other panelists have described, today the HUBZone program faces many challenges. However, please know that I am committed to solving them, and I believe that integrity and transparency must guide all of our actions at SBA. This commitment has allowed us to make dramatic gains in other SBA programs, and I look forward to applying these lessons to HUBZone.

For example, at the end of this month we will roll out our new Business Development Management Information System, which is a comprehensive system that permits electronic 8(a) and Small Disadvantaged Business certifications and electronic annual review. This is a major upgrade that we allow us to more effectively manage this vital program. Last month we released the third iteration of our federal procurement scorecard, this one focusing on agencies' plans for meeting contracting goals.

Improving the integrity of small business contracting data and tightening the rules to qualify are other examples. SBA has led tough-minded efforts that have reduced the miscoding errors in contracts that had a cumulative value of more than \$10 billion. This will result in a more accurate, more useful measure of the contracts going to small businesses, yet another step in greater transparency.

Internally, SBA has also faced other challenges. In 2006 SBA was ranked 30th out of 30 in the Best Places to Work survey among federal agencies. After only one year into the reforms, SBA morale skyrocketed, placing it among the top ten in respect for leadership, overall job satisfaction increasing nine percent, and satisfaction with leadership communication up 11 to 16 percent.

And while each of these efforts has taught us valuable lessons, the reform process for HUBZone especially reminds me of the earlier need to re-engineer SBA's disaster assistance program.

Disaster assistance, like HUBZone today, had obvious and pressing needs. But while facing problems head-on can be difficult, the dividends are also obvious. Because of our reforms, SBA was able to respond quickly and professionally to help victims of the recent Midwest flooding and tornados. Personally, I have been to the Midwest three times since the flooding, and in the course of those trips I've seen our reforms in action.

So while it pains me to have to describe these problems with our HUBZone program, I am also very confident that we can solve them, and in so doing, ensure that the HUBZone program accomplishes the noble purpose for which it was established.

Thank you, and I would be pleased to answer any questions.